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March 24, 2010

VIA EMAIL AND
UPS OVERNIGHT DELIVERY

Ms. Lori Houck Cora
Assistant Regional Counsel
U.S. Environmental Protection Agency
Region 10, ORC-158
1200 Sixth Avenue
Seattle, WA 98101

Re: Portland Harbor Superfund Site; Linnton Plywood Association
FRE 408 Confidential Settlement Communication

Dear Lori:

This letter constitutes Linnton Plywood Association's ("Association") response to EPA's letter of February 9, 2010, and particularly the request for answers and documentation set out in your Attachment 2.

a. Federal Tax Returns True, complete and signed copies of the last two years federal tax returns were filed.

Enclosed under Tab A are true, complete and signed copies of the last two years federal tax returns which were filed, namely, returns for the fiscal years ended March 31, 2008, and March 31, 2009. The tax return for the fiscal year ending March 31, 2010, will not be due until December 15, 2010.

b. Annual Financial Statements True and complete copies to include but not limited to an Income Statement, Balance Sheet, Cash Flow Statement and Expense Statement for the past two calendar years.

In the first instance, annual Financial Statements should be those completed by an outside CPA. In order of preference, this would be an audit, a review, or a compilation - and includes all attached notes. If an outside CPA does not prepare these statements, then company generated annual financial statements should be provided. In the event that final financial statements are not yet ready for a just completed fiscal year, then provide a draft copy.

Enclosed under Tab B are true and complete copies of the Balance Sheet and Profit & Loss Statement for the past two fiscal years ended March 31, 2008, and March 31, 2009. These Financial Statements have not been audited or formally reviewed or compiled by an outside CPA. Joan Edgell, Fellner & Kuhn, P.C., the outside CPA for Linnton Plywood Association, did assist the Association in the preparation of these Financial Statements. Also enclosed under Tab (b) is an interim Balance Sheet and Profit & Loss Statement prepared by the Association for the six months ended September 30, 2009. This interim statement has not been reviewed by the CPA. The Financial Statements for the fiscal year ending March 31, 2010, will be available later this year.

c. Litigation Provide a statement with relevant details as to whether the company currently is, or anticipates being a party to, any litigation which has not been noted in the most recent financial statement and which could impact the company's financial situation.

The Association was named as a defendant in a action brought by the Lower Willamette Group ("LWG") for indemnity arising out of the Portland Harbor Superfund Site. The Association has been dismissed from that action to facilitate settlement discussions between parties, in anticipation of the successful completion of the EPA settlement process. Should this not occur, the Association may be named as an additional defendant in this litigation. The Association has recently received a demand for indemnity from the State of Oregon, Department of Justice, arising out of the Association's submerged and submersible land lease with the State of Oregon, Division of State Lands ("DSL"). The amount of this claim is as yet unknown. The claim is being tendered to LPA's insurance carrier. The Association is generally aware that other claims may be made against the Association, and that some financial payment may be part of any resolution between the Association and the Natural Resources Trustees.

d. Financial Settlements Provide a statement with relevant details as to whether the company currently is, or anticipates receiving or paying, a financial settlement which has not been noted in the most recent financial statement.

The Association has entered into a Stipulation, which has been approved by the Multnomah County Circuit Court, in the matter of Weiss, et al. v. Linnton Plywood Association, et al., Case No. 0807-10423. The settlement requires that the Association make payment of any proceeds from the dissolution of the Association and the sale of its assets to members and former members in accordance with the schedule set forth in the Stipulation. Failure to adhere to the terms of the Stipulation, which have now become a judgment of the Court, would expose the Association to additional liability. Further, as part of the Stipulation the Association must reimburse Plaintiffs' attorney fees in the sum of $25,000.00. A copy of the Stipulation is enclosed under Tab C.

e. Credit

(1) Does the company have any lines of credit which have not been mentioned in the most recent financial statement? If the answer is 'Yes', indicate with which financial institution(s) or lender(s), the specific terms and conditions of that line of credit and the current financial status.

No.

(2) Has the company applied for and been denied credit during the review period? If the answer is 'Yes', provide a statement containing details of that credit request and denial (i.e. date applied for, amount, name of financial institution/lender, date denied, etc.). Include a copy of the letter of denial from that financial institution/lender.

No.

f. Insurance

i. Please provide complete copies of the confirmed liability insurance policies discussed in the October 2, 2009, letter to EPA. If complete copies for every year are not available, provide copies for the years available.

Enclosed under Tab D please find copies of all confirmed and specimen of unconfirmed policies.

ii. Please provide copies of all evidence LPA has regarding the unconfirmed insurance policies discussed in the October 2, 2009 letter. This request is seeking all information, documents and/or correspondence LPA possesses that would indicate the existence of such policies (check stubs, invoices, etc.) and the coverage and other terms and conditions of the policies (correspondence between insured and the insurance company).

Enclosed under Tab E please find copies of all correspondence related to confirmed and unconfirmed policies.

iii. If not provided in response to subpart ii. above, please provide copies of all correspondence between LPA and the insurance company(ies) regarding insurance coverage and the terms and conditions of such liability insurance policies, including any Reservation of Rights and agreement to defend LPA. Please include any information or communications that substantiates the claim that the liability insurance policies for all 19 years are "wasting policies".

Enclosed under Tab E please find copies of all correspondence regarding these subjects. As previously confirmed, the subject policies are not "wasting policies".

iv. Did LPA have any excess insurance in addition to the primary policies that may provide coverage for property damage or other costs being incurred in relation to the Portland Harbor Superfund Site? If so, please describe all such excess insurance and provide copies of all such policies.

No, not to LPA's knowledge.

v. What type and amount of liability insurance did LPA have prior to 1966, and does LPA have any evidence or other information regarding the terms and conditions of such insurance policies? If so, please provide copies.

None to LPA's knowledge.

vi. Please describe what the $400,000 of liability insurance coverage was paid for.

In prior correspondence the Association noted the sum of $400,000 as accumulated remedial investigation and remedial costs, together with costs of defense that had been incurred as of that date. Those figures were included under the mistaken assumption that the insurance policies enclosed under Tab D referenced above were "wasting policies," which results in the insurance coverage being reduced by those expenditures. We have now confirmed that the policies are not "wasting policies." However, we have received confirmation from the insurance carrier that $62,959.00 in remediation costs has been deducted from the policy limits leaving approximately $1,837,000.00 in coverage to resolve all claims, including those asserted by EPA, LWG, DSL, Natural Resources Trustees and any other PRP claims.

vii. Was LPA ever a third-party insured on liability insurance of a lessee or other authorized company or person operating on LPA's property? If so, please describe such insurance policy and provide copies.

Not to LPA's knowledge.

g. Settlement Costs Please provide details of the major items constituting the $600,000 of liabilities and the estimated $600,000 closing costs that will be paid from the property sale proceeds.

   A. **The $600,000 in estimated liabilities consists of payables other than to members or former members of the Association, as set forth in the attached financial statements. This figure also includes an estimate, at the time, of the attorneys' fees and expected accumulated operating losses and unpaid property taxes that would have been paid at the time of the closing of the then pending sale of the Association's property. The pending sale has been terminated. Nonetheless, the Association continues to incur losses of approximately $15,000 per month and accumulates unpaid property taxes and interest totaling approximately $325,000.00.**

   B. **The $600,000 in estimated closing costs are those costs that will be incurred upon the sale of the Association's property. The previously pending transaction has now been terminated, but the Association hopes to be able to sell its property to a new buyer. If it does, the Association expects to incur closing costs estimated to be $600,000.00, and likely will include, but not limited to, real estate broker's fees, escrow fees, title insurance fees, legal fees associated with drafting a new purchase agreement, and any other items that may be required to be paid by seller as a condition of closing a sale by a buyer.**

h. Share Redemption and Retains Please provide the breakdown between the amount of stock or equity redemption and the Retains and any other information that may help explain and support the $3.2 Million Retains amount. If the amounts of Equity redemption and Retains is different than that shown on the most recent financial statements or tax returns (items a. and b. above), please explain the differences. Please provide record evidence that supports the company owes $3.2 Million in Retains to its members.

The Association began its operations as a cooperative in 1951 and continues as a cooperative today. A cooperative is owned and governed by its members, but it is substantially different from a corporation. To be a member in the Association an individual had to own one share of the Association's common stock. The Association's original issuance of 200 shares of common stock at a par value of $5,000 has been the only time the Association has raised capital through the issuance of stock. In private transactions the price per share fluctuated, but the Association's financial interest was only the original share issuance price. The Association has on a rare occasion redeemed shares, principally when the shareholder died and the redemption was for the benefit of the member's estate. In addition to owning a share a member had to

meet certain other requirements, primary among those was the obligation to actively work at the Association's plywood operation. Members who met all of the requisite criteria were entitle to vote, shareholders per se did not vote. Ownership did not entitle the owner to any dividends or other distributions.

A member, which by definition meant someone working at the plywood mill, was paid an hourly wage, which in essence was an advance (and said payment fluctuated with the market place) but for the most part was lower than what a worker could earn at a more traditional plywood mill. These wages were effectively advances of a member's share of any profits and were subject to adjustments for losses from mill operations for each fiscal year. Each member's allocation of profits and losses was based upon their "Patronage" (number of hours worked) in the mill. Patronage was determined by taking the hours worked by a member compared to the total hours worked by all members. In good years a member might make more than his peer at a standard operation, but in bad years he might not make as much after incurring responsibility for his share of the Association's losses.

Because there were only so many opportunities to work at the mill, issuing additional shares to increase membership was not an option for the Association nor was it a viable way to raise needed operating capital. Instead the Association capitalized its operations by allocating, but not distributing all of its profits to members. The Association "retained" some of the members' profits, even though the members paid income tax on the "Retains" as if they had been received. These "Retains" were noted on the Association's books and records and would fluctuate on a yearly basis. By way of example, a member's "Retains" in one year may be reduced by that member's share of losses in the next year. The Association's Bylaws require that these "Retains" be paid back to the members when there are funds available. However, there are still "Retains" on the books going back to 1984, with accumulated "Retains" thereafter each year until 2001 after which the Association ceased its mill operations. These unpaid "Retains", which do not bear any interest, total more than $3.1 Million. The Weiss lawsuit, which is referred to above, was brought by former members who contested the method by which "Retains", share equity and losses would be determined if and when the Association is able to sell its real property and have proceeds to distribute to members. The dispute was resolved by stipulation, which has now become a judgment of the Court, requiring the Association to make distributions to shareholders and members in accordance with the methodology described in the Stipulation. The majority of the Association's members are retired, elderly workers who have waited years to get back what they earned as wages and paid taxes on, but

will never enjoy until the Association is able to sell its property and make distributions in accordance with the Stipulation.

Enclosed under Tab F is an Excel spreadsheet prepared from the member and shareholder records of the Association. The spreadsheet shows in column C the amount of retains allocated to each of the 199 members and former members. Column D shows the stock currently held by the 126 members and former members. The total retains and stock is shown in Column E, namely, $3,114,045.49. The names of each individual member and former member have not been shown in the spreadsheet. These amounts differ from the amounts shown in the financial statements and tax returns. The stock is shown in the financial statements and tax returns at a net figure of $407,908 (common stock less treasury stock). The spreadsheet shows that 126 persons own stock (one share each) and each share is due to receive on liquidation $5,000 pursuant to the Court approved Stipulation (a total of $630,000). The financial statements and tax returns show retains in an amount that is slightly different that the amount shown in the Association member records. The financial statement and tax return amount is $2,515,271 and the spreadsheet amount is $2,484,045.49, or a difference of $31,226. This difference arises from various accounting adjustments over the years that are not reflected in the member allocation data. Another difference that does not appear in the financial statements, Association tax returns and the spreadsheet is the actual cost of each share of stock held by the current stockholders. Almost all of the outstanding shares were purchased by these stockholders from deceased or retiring members when they became members since the ownership of one share was required to work at the cooperative. These purchases were made at a time when the Association was profitable and working there was attractive enough to create a premium for the share to be purchased from the retiring member. The average cost of the 126 shares currently outstanding is $44,970. However, each of these shares is scheduled to be retired on liquidation at only the original par value of $5,000 per share.

i. Additional Information The EPA encourages the company to provide any additional information which may be relevant to the company's financial status and ability to pay response costs related to the Portland Harbor Superfund Site. Also, the EPA may request additional information to clarify issues raised by the above requested documents.

The Association adopted a plan of liquidation in 2001. Nine years and a number of failed sales later, the Association has been stymied by Superfund Site constraints which have precluded its ability to complete its liquidation by selling its real property, which is its last remaining asset. It is collecting some rental income, but this falls short by

approximately $15,000 each month of covering expenses, not to mention deferred ad valorem real property taxes and interest. Early settlement to resolve CERCLA and related liabilities is essential. Currently insurance policy proceeds are the only resource from which any and all settlements can be funded.

While it still exists, the Association has the opportunity to reasonably contribute to Portland Harbor investigation and projected remediation costs taking into account its admitted role as a minor possible contributor to in-river contaminant impacts, to achieve a restoration project early and of a scale that is superior when compared to other sites within the Harbor, and to do justice to its aged members whose life's savings are locked up and about to be lost. These circumstances underscore the social, economic, and environmental value which can be derived from early resolution.

Very truly yours,

Paul B. George

WPH/dod
Enclosures
cc: Kristine Koch

DECLARATION

I declare under penalty of perjury that I am authorized to respond on behalf of Respondent and that the foregoing is complete, true, and correct.

Executed on March 24, 2010

Signature

Paul B. George
Type or Print Name

Attorney for Linnton Plywood Association
Title

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